Runaway Inequality

An Activist's Guide to Economic Justice

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Labor Institute Press

Labor Institute Press
817 Broadway, New York, NY 10003

TheLaborInstitute.org

ISBN 978-0-692-43630-1

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Introduction

The United States is among the richest countries in all of history. But if you're not a corporate or political elite, you'd never know it. In the world working people inhabit, our infrastructure is collapsing, our schools are laying off teachers, our drinking water is barely potable, our cities are facing bankruptcy, and our public and private pension funds are nearing collapse. We – consumers, students, and homeowners – are loaded with crushing debt, but our real wages haven't risen since the 1970s.

How can we be so rich and still have such poor services, so much debt and such stagnant incomes?

The answer: runaway inequality – the ever-increasing gap in income and wealth between the super-rich and the rest of us.

This isn't the first time that a tiny elite has gained extraordinary control over economic and political life. Ancient Egypt had the Pharaohs. Medieval Europe had feudal lords and kings. We Americans had industrial robber barons.

And today, we've got financial and corporate elites.

Runaway inequality is upending how we see ourselves and how we govern. It is upending the American Dream (the cherished idea that life gets better and better with each generation). And it is upending the practice of democracy and the very idea that each of us has roughly equal influence in governing our country.

It's time to face up to runaway economic inequality – what causes it, what it's doing to us, and what we can do about it.

This book has four aims:

1. Shine a light on economic inequality: It's worse than you think

For all the talk about economic inequality, most of us have no idea how bad it really is. It's as if our native sense of justice won't let us comprehend how outrageously unequal our economy has become and how much worse it's getting day by day. Maybe we're just too fair-minded to wrap our minds around the level of systematic greed that now permeates society's top echelons.

We'll look at just how wide the gap is between the super-rich and the rest of us, and how rapidly it is accelerating. A very small group of economic elites is accumulating more and more of the country's resources while the rest of us stand still or fall further behind.

But the problem goes beyond how many dollars we have (or don't): Runaway inequality is tearing apart the fabric of our society. The super-rich live in a world that no longer requires mutual reliance on common public services. Elites generally don't use our schools, our roads, our airports. They don't really care if our infrastructure collapses. We are cracking into two separate societies.

At the same time, the super-rich are able to park trillions of dollars far from the reach of the tax collector. By avoiding and evading taxes, with help from an army of lawyers and bankers, the rich are undermining the government services that the rest of us need. So our roads and bridges crumble, our environment becomes contaminated, our children crowd into our rundown schools. We pay a fortune out of pocket for higher education and poor quality health care. And some of us with darker pigmentation are targeted for arrest and fines in order to help fund local government, while also facing poverty and police violence.

Runaway inequality undermines the practice of democracy. As the rich get richer and richer, it gets easier and easier for them to buy political favors. They can twist the media, elected officials, and government agencies to do their bidding. They vote with their money, which makes a mockery of our democratic "one vote, one person" creed. We'll see data showing that elected officials rarely act on the agenda most Americans support. Instead they represent the wishes of the affluent.

Using over 100 easy to read charts and graphs as well as text, we will demonstrate that as bad as you think it is, it's worse.

2. Examine the Fading American Dream

We'll take an honest look at how we compare to other developed nations.

Most of us still view our country through the lens of the American Dream and American "exceptionalism." We see ourselves as leading the world in just about everything that is good and just. As virtually every politician likes to say, we are the shining light of freedom and prosperity, blessed by God.

Most Americans believe that the U.S. has the most upward mobility and highest standard of living in the world. We think that the U.S. is the fairest nation on Earth, offering the best prospects for everyday people. (And for anyone who isn't moving up, it's their own fault.)

But the facts in this book will undermine that perspective. While America may have had the most prosperous working class from World War II to 1980, it doesn't anymore. In fact, today the U.S. is the most unequal country in the developed world. We have the most child poverty and homelessness. We have more people in prison than China and Russia. And Americans are less upwardly mobile than most Europeans.

We'll see that our public services don't stack up either. Our health care costs more, covers fewer people and produces worse outcomes. And we are nearly last among developed nations in energy efficiency and overall infrastructure.

No question about it, the top 1 percent never had it so good. But the rest of us are losing sight of the American Dream as runaway inequality accelerates.

3. Empower ourselves with the big picture

From years of conducting economic workshops for adults, we've learned that having a clear overview of what is going on is remarkably empowering for people. When you can step back and see how it all fits together, the world makes more sense.

We'll work hard at presenting that big, wide view, because most of us never have a chance to see it. You just can't get an accurate picture of the economy as a whole through the everyday media or the jumble of internet sources. We hear snippets about stock markets, government debt, trade, unemployment and inflation. What we don't hear about is the context, substantive explanation, or critical questioning about why any of this is happening and how it relates to our daily lives.

Most of all, the media turns a blind eye to the fact that we live in a capitalist system. We're never allowed to get outside that box so we can look at it and see how it ticks. So we never hear about the fundamental conflict that capitalism creates between the needs and wishes of privately owned corporations and our health and well-being – or the well-being of the planet that sustains us. We don't hear about how the corporate owners' and financiers' insatiable drive for profits is eroding our standard of living. Yet these conflicts are key to understanding our new era of runaway inequality.

The picture of the economy that nearly all of us share turns out to be wrong. We are told in many different ways that the economy is like a complex machine that functions beyond the reach of human control. This machine metaphor frames our view of the economic world: It makes us think that everyone is just doing their thing in the machine, and that we each get what we deserve, more or less. It obscures the reality that there is, in fact, a fundamental conflict between employees and owners, between the rich and the rest of us.

The big picture we'll present makes a lot more sense than the chopped up version that bombards us each day. Yes, the economic system is complex and yes, it is very hard to control. But its fundamental direction is set by humans who serve particular interests. We will see how powerful people chose to dramatically change the economy's direction a generation ago, and how working people have been paying the price ever since. Runaway inequality is not an act of God. It is the result of a system designed by and for wealthy elites.

4. Come to a common understanding so we can build a common movement

We offer this, our most ambitious goal, with the utmost humility: We aim to help build a broad-based movement for economic and environmental justice.

Right now, we lack a robust mass movement with the power to reclaim our economy and our democracy to make it work for the 99 percent.

Instead, we have thousands of individual groups working on every issue from fracking to a living wage. We have unions fighting for their members and worker centers fighting for immigrant rights. We have protests ranging from Occupy Wall Street to Black Lives Matter to climate justice. We have hundreds of progressive websites and journals to cover all this activity. But we do not have a coherent national movement with a clear and bold agenda that links us together.

We will show that runaway inequality is at the root of many of the problems we face, including the meteoric and disastrous rise of the financial sector, defunding of the public sector, environmental destruction, increased racial discrimination, the gender gap in wages and the rise of our mammoth prison population. And we will posit that if we share a clear understanding of runaway inequality – and the basic economic situation we face – we can begin to build a common, broad-based movement for fundamental economic justice that will take on America's economic elites.

The political system will not move unless we organize on a mass level like the Populists did over a hundred years ago, like the trade union movement did in the 1930s and like the Civil Rights movement did in the 1950s and 1960s.

Some liberal economists and politicians appeal to the self-interest of the super-rich. They argue that the rich would be (even) better off if they would just allow a fairer distribution of income and wealth. We disagree. Expecting the wealthy to help us secure basic fairness is a losing proposition.

Economic elites will only give up power and wealth when they're forced to do so by a powerful social movement.

So this book has far-reaching but difficult to achieve goals. It outlines an economic analysis and economic solutions that can connect us and enable us to build a broad, common movement. Such a common economic analysis does not by itself bring us together. But it will be very hard to create a powerful mass movement without one.

To achieve these goals the book is divided into four parts:

Part 1: Causes of Runaway Inequality analyzes how wealth is extracted from all of us by Wall Street.

Part 2: The Decline of American Exceptionalism examines America's ranking on key economic and social issues in comparison to other developed nations.

Part 3: Separate Issues, Common Cause shows the major impact of runaway inequality on a series of issues that often are viewed independently.

Part 4: Solutions reviews a range of policies and actions that will be needed to bring more economic and social justice to America.

In the end this book makes one essential point again and again. Runaway inequality comes at a steep price. The money that enriches the few is extracted from all that we hold dear – our public life, our incomes, our health and the education of our children. It is making poor the richest country on Earth. . . . Until we do something about it.

PART ONE

Causes of Runaway Inequality

CHAPTER 1

It's as Bad as You Think It Is . . . . And Worse!

Please take a moment to write down the answers to two basic questions:

- How much do you think the CEO of a large corporation makes in a year, on average?
- How much do you think an entry-level (unskilled) factory worker earns in a year, on average?

Your answers allow us to construct an important statistic about inequality – the wage-gap ratio.

For example, let's say your answer is that the typical CEO makes about $500,000 per year, while the factory worker earns about $25,000 per year. That gives us a wage-gap ratio of 20 to one – that is, for every one dollar earned by the worker, the CEO earns $20 (500,000/25,000 = 20/1).

If you said one million dollars for the CEO and $25,000 for the factory worker, then the ratio jumps to 40 to one.

What ratio did you come up with?

How Americans view the wage gap

These same two questions were asked of more than 50,000 people around the world, of whom 1,581 were Americans of all stripes. [1]

1 The data comes from the International Social Survey Programme: Social Inequality IV - ISSP 2009 on the website Gesis. If you do research or educational work, you can sign up for free and examine the amazing array of data collected here:

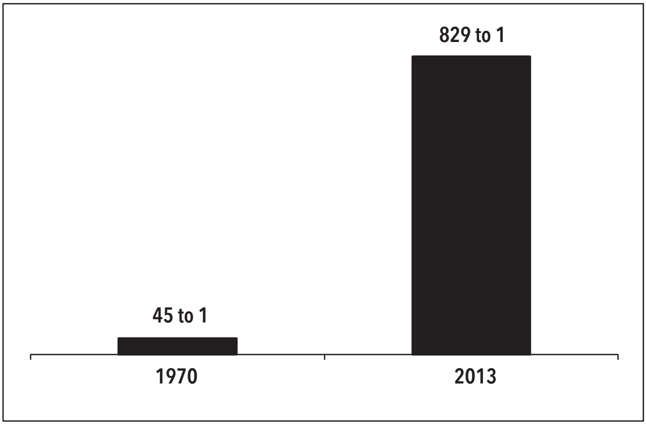

Chart 1.1: Wage Gap: Top 100 CEOs vs Average Worker*

*Average worker is production or nonsupervisory worker, based on weekly wages multiplied by 52 weeks.

Sources: CEO pay from CEO compensation surveys, *Forbes*, April/May issues, 1971-2011 and Equilar survey reported on in *New York Times*, June 8, 2014; Worker earnings based on U.S. Bureau of Labor Statistics data, http://www.bls.gov/data/#wages.

It turns out that the median American response – that is, the response that is exactly in the middle of survey results from Americans – estimated that a CEO of a large company earned about $900,000 per year and that the average factory worker earned about $25,000. That makes for a wage-gap ratio of 36 to one.

But how close are these estimates to reality? Not very.

Charts 1.1 and 1.2 give us a pretty good estimate of the growing gap between total compensation[2] for the top 100 and top 200 CEOs and the pay of a typical worker.[3]

In 1970, for every dollar earned by the average worker, the top 100 CEOs earned on average $45. By 2013, the ratio had jumped to $829 to $1.

More amazing still is that on average Americans think CEOs of

http://zacat.gesis.org/webview/index.jsp?object=http://zacat.gesis.org/obj/fStudy/ZA5400.

2 Total compensation includes salaries, bonuses, stock options and deferred compensation.

3 The number for worker's pay was derived by using the average wages of production or nonsupervisory workers, which includes workers in the service sector as well as other private industry sectors.

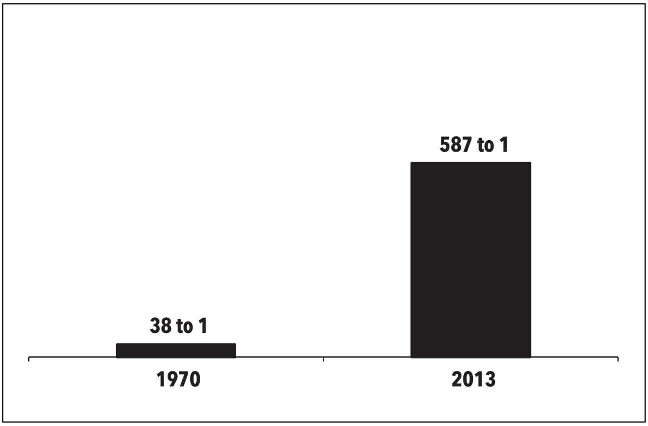

Chart 1.2: Wage Gap: Top 200 CEOs vs Average Worker*

*Average worker is production or nonsupervisory worker, based on weekly wages multiplied by 52 weeks.

Sources: CEO pay from CEO compensation surveys, *Forbes*, April/May issues, 1971-2011 and Equilar survey reported on in *New York Times*, June 8, 2014; Worker earnings based on U.S. Bureau of Labor Statistics data, http://www.bls.gov/data/#wages.

large companies receive about $900,000 per year in compensation, when in reality they receive nearly $30 million!

It's as if our perception of the income gap was frozen in 1970. We just have not caught up with the realities of runaway inequality.

What do we think the wage gap should be?

Ok, let's try these two questions again. But this time, let's come up with what we think should be the fair and just compensation for CEOs of large corporations and for unskilled factory workers.

- How much do you think the CEO of a large corporation *should* earn per year?
- How much do you think an entry-level factory worker *should* earn per year?

Please take a moment to jot down your answers.

Now let's go back to the survey information to see how the typical American answered these same questions.

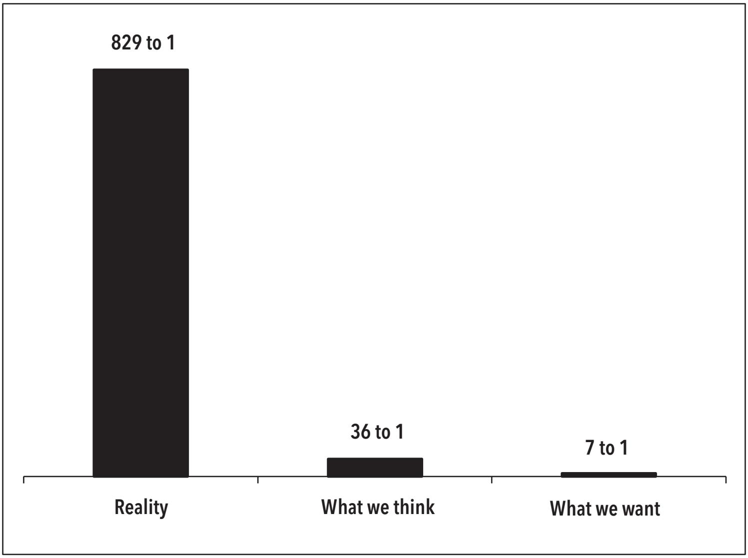

Chart 1.3: The Public Doesn't Understand the Magnitude of the Wage Gap
Sources: Opinion data from International Social Survey Programme: Social Inequality IV-ISSP 2009; author's calculations based on data for 2013 from Equilar CEO compensation survey reported on in *New York Times*, June 8, 2014 and average wages from Bureau of Labor Statistics, http://www.bls.gov/data/#wages.

This time it turns out that Americans' median response – the one smack in the middle of all the responses – is that a CEO of a large corporation *should* earn about $200,000 a year and that an unskilled factory worker should earn about $30,000. This produces a wage-gap ratio of about seven to one.

Let's pause for a moment to consider how jarring this result is (see Chart 1.3). The actual wage gap between a CEO and the average unskilled worker is 829 to one. Yet Americans believe it should be only seven to one. This is an enormous difference. It suggests that if the typical American knew the real numbers, they would be outraged by this glaring example of runaway inequality.

Do our estimates vary by political affiliation or educational level?

The survey also asks questions about political affiliation so that we can see whether those who call themselves "Strong Democrats" have significantly different beliefs than those who call themselves "Strong Republicans." We can also see how the responses vary between people who didn't finish high school and those who have graduate degrees.

Remarkably, the responses hardly vary at all. All of us, on the right and the left – high school dropouts and PhDs – have two things in common: 1) We all grossly underestimate the size of the wage gap; and 2) We all want a much, much smaller wage gap.

As Table 1.1 shows, "Strong Democrats" estimate that the *actual* ratio between the pay of a CEO of a large corporation and an unskilled factory worker was about 36 to one. "Strong Republicans" said it was 40 to one. Not much of a difference.

When it comes to offering opinions about what the wage gap *should* be, the Strong Democrats thought five to one was about right, while the Strong Republicans thought it should be about 12 to one. The two political extremes obviously are far closer to each other than to the current reality of 829 to one.

And how much did the responses vary based on people's educational attainment? Again, not much. Those who didn't finish high school thought the *actual* gap was 60 to one, while those with

Table 1.1: Americans Estimate What the Ceo/Worker Pay Gap Actually Is, and What It Should Be*

	What we think the pay gap actually is**	What we think the pay gap should be
Strong Democrat	36 to 1	5 to 1
Strong Republican	40 to 1	12 to 1
< High School degree	60 to 1	5 to 1
Graduate Degree	40 to 1	12 to 1
Actual	829 to 1	

* All estimates are calculated for the median respondent – the mid-point in the array of responses.
** The ratios are calculated by creating a ratio of responses to two survey questions: "How much do you think a chairman of a large national corporation earns?" divided by "How much to you think an unskilled worker in a factory earns?" The "should be" wage gap comes from similar questions in the survey that ask how much a chairman and an unskilled worker should earn.

Source: Leibniz Institute for the Social Sciences, International Social Survey Programme: Social Inequality IV-ISSP 2009, http://zacat.gesis.org/webview/index.jsp?object=http://zacat.gesis.org/obj/fStudy/ZA5400.

graduate degrees thought it was about 40 to one (both compared to the reality of 829 to one).

Those who didn't complete high school thought the ideal pay gap should be about five to one, while those with graduate degrees thought it should be 12 to one. These ratios are identical to those offered by the Strong Democrats and Strong Republicans.

When it comes to our ignorance of the pay gap, there are no blue states, no red states – only misinformed states of mind.

Why are we so blind to runaway economic inequality?

Most of us have no idea that our golden land of opportunity is the runaway leader among developed nations when it comes to inequality (see Chapter 5). Of course this runs completely counter to the American Dream, that persistent belief that America is the fairest nation of them all – the most just and upwardly mobile country in history.

That core belief about America's superiority seems to make it hard for us to take in this contradictory information. As social scientists have established, we tend to tune out information that challenges our deep-seated beliefs. In this case, absorbing this new data is just too jarring to our long-held sense of national identity.

Our misreading of inequality also may be a legacy of the post-World War II economic boom. During that time, our working class had the highest global standard of living in the world, with ever increasing yearly real wages (which we'll see in greater detail in Chapter 2).

From the New Deal through the Cold War (1933 to 1990), it was American policy to boost job and income levels as much as possible to make sure our workers and middle class were "the envy of the world." That's a half century of rising prosperity for working people. Also during this period, income taxes on the wealthy were extremely high, more than 90 percent for people at the highest income bracket during World War II and the 1950s. As a result, the

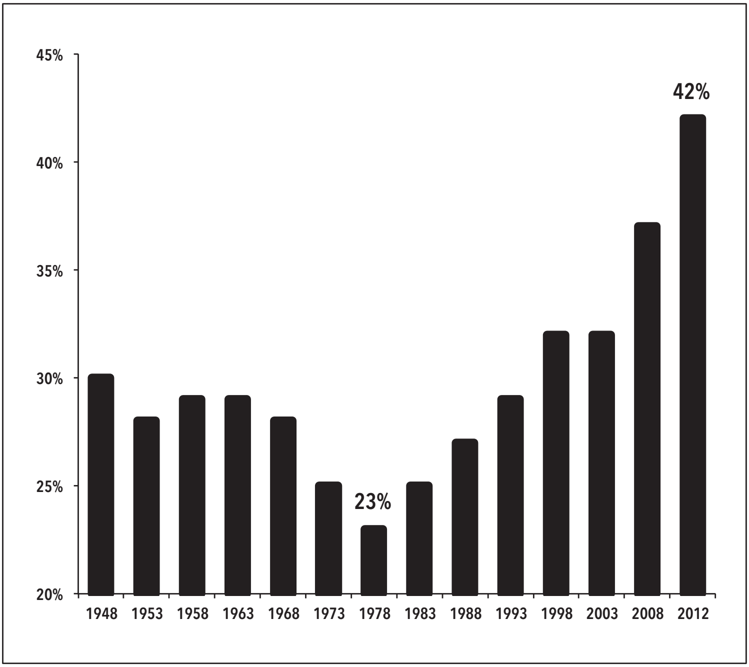

Chart 1.4: Top 1% Share of U.S. Wealth, 1948-2012

Source: Emmanuel Saez and Gabriel Zucman, *Wealth Inequality in the United States Since 1913*, National Bureau of Economic Research, October 2014, Appendix Table B-1, http://gabriel-zucman.eu/files/SaezZucman2014.pdf.

top 1 percent, while living extremely well, saw their share of total U.S. wealth decline (see chart 1.4).[4]

So it's little wonder that the massive baby boom generation grew up with both the ideal and the reality of relative equality – at least for Caucasians. Of course, there were wealthy people all over America even then, but life was getting better and better for the vast majority of Americans.

It seems we're still living with this cultural hangover, clinging to a societal self-image from yesteryear. Although runaway inequality is our new economic reality, many of us still look in the mirror and see the fairest of them all looking back at us.

4 Emmanuel Saez and Gabriel Zucman, "Wealth Inequality in the United States Since 1913," October 2014, http://gabriel-zucman.eu/files/SaezZucman2014Slides.pdf.

Both political parties refuse to address inequality

Perhaps the biggest reason we are so misinformed is that it is not in the interests of our political parties for us to see the truth. Neither political party has addressed rising inequality in a meaningful way. Yes, the Democrats tend to support modest rises in the minimum wage that do make a difference to those stuck in the lowest-paying jobs. But they won't go near the revolutionary idea of placing a legal limit on what the CEO/worker pay gap should be.

Why don't our politicians propose to limit the CEO/worker pay gap to, let's say, 12 to one, a ratio that even Strong Republicans and the well-educated think would be fair and just?

Perhaps because they live in fear of a different revolution – a massive revolt from their elite corporate donors, who wouldn't dream of earning so little. In fact, the elite establishment – in finance, the corporate world, the higher levels of government, academia and the media – have no intention of limiting their incomes, no matter what the public believes to be just and fair. Here lies the very essence of class struggle between the 99 percent and 1 percent, and neither party wants any part of it.

What will it take to wake us up to inequality?

The good news is that Americans of all genders, shades, incomes, education levels and politics think on average that the wage gap should be about seven to one, not 829 to one. That's a pretty good place to start. Imagine if the only real economic debate was between the Strong Democrats who thought a fair wage gap should be five to one versus the Strong Republicans who thought it should be 12 to one. A broad movement for economic justice should be able to build on this shared sense of basic fairness. It's light-years ahead of what elites expect and feel is their due.

For about six months, Occupy Wall Street touched this nerve and put inequality on the agenda. "We are the 99 percent" became the national anthem for many Americans. For the first time in a generation, the country was talking about the gap between the super-rich and the rest of us.

Roughly at the same time, the Tea Party emerged with a different message. They also sensed that something was profoundly wrong. But for them the problem was (and is) big government, not inequality. They and their political allies tend to blame inequality on low-income families themselves (the "takers"), while heaping praise on the wealthy ("the makers").

Others, including some liberals, blame inequality on new technologies that require skills workers don't have. The implication is that those at the bottom could close the wage gap if they could just get that college degree or advanced skill. This self-help message resonates with most Americans, and access to (free, high-quality) education would certainly help.

But it will take a different kind of education to reduce the wage gap. We no longer have 900 Occupy encampments around the world to remind everyone that inequality is our new way of life. But each day millions of Americans face the stark reality of trying to survive on low pay and porous benefits, and pressure for increasing wages and benefits is growing. And so is the level of anger and frustration.

We need to relearn the skills of building a mass movement. That includes educating ourselves about the realities of growing economic inequality. Only then can we break through the faulty self-image of America that is crippling us.

Spread the word: We are the most unequal society in the developed world, and we can change that.

Discussion Questions:

1. In your opinion, is the growing wage gap between CEOs and the rest of us an important issue? Why or why not?

2. Why do you think that Americans underestimate the wage gap between CEOs and the rest of us?

3. Do you think it would make a difference to spread the word about how extreme the CEO/worker wage gap has become? Why or why not?